SOAH DOCKET NO. 582-08-2863
TCEQ DOCKET NO. 2008-0093-UCR

APPEAL OF THE RETAIL WATER AND WASTEWATER RATES OF THE LOWER COLORADO RIVER AUTHORITY	§ § §	**BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS**

LOWER COLORADO RIVER AUTHORITY'S EXCEPTIONS TO THE ADMINISTRATIVE LAW JUDGE'S PROPOSAL FOR DECISION

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TO THE HONORABLE COMMISSIONERS OF THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY:

The Lower Colorado River Authority ("LCRA"), pursuant to 30 Tex. Admin. Code § 80.257(a), hereby files its Exceptions to the Administrative Law Judge's ("ALJ") Proposal for Decision ("PFD") in the above-captioned matter, and in support states as follows:

I. INTRODUCTION

The components of the revenue requirement for WTC Water and WTC Wastewater are: 1) direct operations and maintenance (O&M) costs; 2) indirect O&M costs; 3) debt service; 4) debt service coverage; 5) community development fund; and (6) operating reserves. In his PFD, the ALJ recommended that the revenue requirements for both systems should be based on actual Fiscal Year (FY) 2007 data and found every cost component noted above, except for a few minor direct O&M costs, and certain indirect O&M costs, to be reasonable for that given year. Accordingly, the majority of the direct O&M costs (over 99%), debt service, debt service coverage, community development, as well as operating reserves of both WTC Water and WTC Wastewater were found to be reasonable by the ALJ. For the most part, only certain cost components from indirect O&M costs allocated to the systems are at issue.

The ALJ's recommendation to adjust LCRA's indirect/shared O&M costs is based on two observations: first, the ALJ disagreed with the use of volume as an allocator for both WTC Water and WTC Wastewater. The ALJ recommends instead that "direct labor" be substituted for "volume" for the allocation of certain indirect costs. Second, the ALJ recommends the initial exclusion of specified costs from several cost pools within WTC Water, and the reallocation of these costs based on a different methodology. The ALJ did not recommend any exclusions (from cost pools) for WTC Wastewater.

Because of the ALJ's recommendation to substitute "direct labor" for "volume," and to exclude selected indirect costs and then re-allocate them in a separate manner, he was unable to establish a revenue requirement and requested that the parties discuss the impact of such a change in their respective exceptions. LCRA takes issue with the PFD's conclusions with regard to the indirect O&M component, but nevertheless, has performed the requested calculations and has provided the results in these Exceptions.

There are now three different theories for developing revenue requirements that are before the Commission:

(1) The LCRA method, which is the subject of this appeal;

(2) The method advanced by the Executive Director, which supported LCRA's cost allocation methodology, including the use of volume; and significantly, found that LCRA's rates are just and reasonable; and now,

(3) The method advanced by the ALJ, which restructures LCRA's cost allocation methodology, and yet has a nominal impact on the overall revenue requirements of WTC Water, as compared to the budgeted amount, and in fact, results in an increase of overall costs for WTC Wastewater.

To be sure, all three methodologies arrive at same conclusion—that the rates approved by the LCRA Board on August 22, 2007 are just and reasonable.[1] Indeed, after three years of being involved in a costly and resource intensive contested case proceeding, and having every aspect of its methodologies, processes, and decisions reviewed, analyzed, and re-analyzed, it is now evident, under either theory advanced for developing revenue requirements, that the rates approved by the LCRA Board are just and reasonable.

For the purposes of establishing rates in this matter, LCRA will not dispute the ALJ's recommendation to use FY 2007 actual cost data as a starting point. LCRA, however, takes issue with the ALJ's conclusion that the use of FY 2010 budget data, or the Executive Director's recommended use of FY 2008 budget data, were unreasonable. On the contrary, LCRA believes that the budgeted revenue requirements for those years were reasonable because they were developed using LCRA's established budgeting process with consideration and analysis of historical information about system costs, forecasts of future costs using consistent, conservative methods and assumptions, and using a long-established LCRA process with many business controls. LCRA's method for building budgets and determining revenue requirements has been tested and found reasonable at the Public Utility Commission and by independent consulting firms. The record, therefore, contains a substantial amount of evidence in support of LCRA's thorough budgeting process and is completely devoid of any evidence demonstrating that either improper assumptions were made during the budgeting process or that the resulting figures were unreasonable. The only basis for the ALJ's conclusion appears to be the principle that "one

[1] The ALJ assumed that the deductions for indirect/shared O&M costs would result in a "significant deduction" in rates, but as will be shown herein, that will not be the case.

cannot accurately predict the future," yet there is no mention of what was inaccurately, or even, unreasonably, predicted.

LCRA further disagrees with the PFD's conclusion that "volume" is an inappropriate allocator and the recommendation to use "direct labor" in lieu of "volume" as an allocator. The record contains a significant amount of credible evidence demonstrating that the volume of water produced and sold is an appropriate cost driver for certain support services. The PFD's conclusion with regard to "volume" is due to the application of a new standard of proof for "volume," as an allocator, that is unreasonable and contrary to the standard under which every other allocator has been assessed and found to be reasonable by the ALJ. Further, the record is clear that under the LCRA system of pooling certain support costs, the use of "direct labor," as an allocator, is an imprecise method, because that allocator captures fixed plant operational costs, rather than variable support costs needed to operate and maintain the systems, such as certain real estate services, legal costs, engineering costs, among others. The variable portion of the above costs is influenced by factors such as volume of water produced by the utility and the expected growth of the system. For example, the cost of real estate services, which at LCRA includes support for obtaining easements, contract reviews, and title searches among other services, will be higher at a system that produces a great amount of water and is situated in a high growth area, than a system that produces a fraction of the water and is not experiencing growth.

The ALJ's recommendation to swap allocators is particularly unsuitable for WTC Wastewater, because it is not supported by any testimony in the record with regards to WTC Wastewater. The testimony in the record relating to the use of "direct labor" relates exclusively to WTC Water, and not WTC Wastewater. It is, therefore, inappropriate to transfer the record developed for WTC Water and apply it to WTC Wastewater. The evidence does not indicate that the same logic would follow. In fact, the substitution of direct labor for volume, as an allocator, for WTC Wastewater, results in a higher allocated percentage and results in higher costs for WTC Wastewater than those proposed by LCRA. LCRA does not believe that the record supports a recommendation to substitute "direct labor" in the place of "volume," for WTC Wastewater.

LCRA believes that its methodology for determining the indirect O&M costs for both WTC Water and WTC Wastewater was appropriate and led to an amount that correctly reflects the level of support costs needed to properly operate those systems. Nevertheless, in order to comply with the ALJ's request, LCRA has performed the necessary calculations related to indirect O&M costs to determine the impact of the ALJ's recommendation on the WTC Systems. The ALJ's modifications to the indirect O&M costs results in the following: for WTC Water, the revenue requirements for the entirety of the system (for both wholesale and retail customers) decreases by approximately 7% as compared to LCRA's FY 2007 budget data;[2] and for WTC Wastewater, the ALJ's methodology results in an increase of indirect O&M costs. These modifications to the revenue requirements do not impact the rates approved by the LCRA Board on August 22, 2007, because LCRA's rates were never set to recover the full amount of the revenue requirements, and therefore, the net loss in revenue requirements does not result in a reduction in rates. The Commission should, therefore, approve those rates and allow LCRA to

[2] This appeal relates only to retail rates and not wholesale rates. Because the wholesale rates are not being appealed, the indirect costs allocated to those customers are not an issue in this proceeding. Nevertheless, pursuant to the ALJ's request, LCRA performed the calculations for the entirety of the system. If one were to focus on retail rates exclusively (which is the subject of this appeal), and perform the calculations on indirect costs allocated to retail customers only, the impact would be even less than 7%.

collect its rate case expenses and its lost revenues in the manner proposed by LCRA, as well as the Executive Director, in their respective Closing Arguments.

II.
EXCEPTIONS TO PFD

A. ALTHOUGH LCRA DOES NOT DISPUTE THE USE OF ACTUAL FY 2007 DATA IN THIS MATTER, FY 2008 AND FY 2010 BUDGET DATA FOR WTC WATER AND WTC WASTEWATER ARE RELIABLE AND REASONABLE

The ALJ correctly concludes that a retail public utility, such as LCRA, can base its rates on a budget, and that neither the Water Code nor the Commission's rules require it to base utility rates on a historical test year adjusted for known and measurable changes.[3] The ALJ states, however, that LCRA's use of FY 2010 budget information to set rates in August of 2007 was improper and that "the use of that data was not just and reasonable."[4] As further discussed in LCRA's exceptions, LCRA does not object to the use FY 2007 cost data to set the rates under review. Because of concerns about the precedential impact of the ALJ's decisions regarding use of future budget data to set rates, LCRA addresses those decisions.

The PFD's conclusions are based on two observations. First, the PFD states as follows:

> Indeed, not all of the elements of the FY 2010 budget shown in the cost-of-service study were thoroughly or comprehensively determined—for example, allocated expenses were merely increased three percent per year to account for anticipated inflation.[5]

The ALJ is partially correct. All of the elements of the FY 2010 budget shown in the cost of service study were thoroughly and comprehensively determined;[6] however, <u>for the purposes of setting rates</u>, LCRA opted to increase "shared/indirect costs" by only three percent in an effort to

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[3] PFD, pp. 15, 17.

[4] *Id.* at 19.

[5] *Id.*

[6] LCRA Ex. 1, p. 20:15-20; LCRA Ex.4, p. 7:27-33; *see also* Tr., Vol. 5, p. 879:2-21.

lessen the impact of a rate increase on the customers. As Mr. Kellicker explained in his testimony:

> Shared/Indirect expenses were budgeted to increase by 9.3% over the FY 2007-FY 2010 time period which represents only 2.3% annual growth. Since system meters had grown by an average of 30% per year for the four year period prior to the budget year FY 2007, the amount of expense growth is reasonable. The projected growth in indirect/shared expense is less than inflation, and indicates additional savings from the economies of scale realized by the LCRA method used to allocate costs.[7]

Accordingly, LCRA used, as the starting point, its known FY 2006 costs for indirect/shared costs and adjusted those numbers based on the most conservative of assumptions—a three percent increase.[8] The use of a conservative number, one that is even below inflation, to adjust established costs, by no means renders the resulting number unreasonable, and there is no evidence in the record suggesting that a three percent increase of indirect/shared costs results in unreasonable costs.[9] The evidence in the record, in fact, establishes otherwise. Therefore, the ALJ erred in concluding that the resulting costs were unreasonable, based on inflationary adjustments to selected costs.

The second basis for concluding that the use of FY 2010 data was inappropriate seems to be the observation that one cannot predict the future with complete accuracy.[10] That is not, however, the standard under the Water Code. By concluding that budgetary figures are unreasonable when they are based on data that is more than a year old, the PFD (1) elevates

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[7] LCRA Ex. 4, at 21:22-27.

[8] *Id.*; *see also* Tr. Vol. 8, p. 1490:13-19.

[9] Bee Cave and the Districts only argued that a three percent increase does not constitute a "known and measurable change." As the ALJ has correctly concluded, LCRA is not obligated to base rates on a test year adjusted for "known and measurable changes."

[10] PFD at 19 ("Even the most thorough and comprehensive analysis, moreover, cannot necessarily see years into the future").

LCRA's burden of proof beyond the preponderance of the evidence standard, and (2) elevates the standard for rates as something beyond that which is "reasonable."[11] Proof by a preponderance of the evidence "does not require the quality of absolute certainty nor does it require that the party preclude every other possibility,....All that is required is that the circumstances point to the ultimate fact sought to be established with that degree of certainty as to make the conclusion reasonably probable."[12] LCRA has proven, by a preponderance of the evidence, that its rates are just and reasonable and that the rates were developed using reasonable revenue requirements—revenue requirements that were developed using LCRA's long-established budgeting process, which considers and analyzes historical information, and makes projections based on reliable, consistent, and conservative methods and assumptions.

The PFD also concluded that the use of FY 2008 budget data, as advocated by the Executive Director, was inappropriate, and provides that the FY 2008 data was an unreliable forecast of anticipated expenses because it was "based on data more than a year old."[13] Essentially, the PFD concludes that data that is eleven months old is reliable, yet data that is thirteen months old is *per se* unreliable. In arriving at this conclusion, two pieces of evidence seem to be at issue. First, the following statement from the Executive Director's witness, Ms. Loockerman, is highlighted by the ALJ:

> I don't think you can accurately predict the future anyway. I think as you go out further in time it gets less accurate.[14]

Second, the ALJ relies on Exhibit BC-75, which is a one-page document related to the FY 2008 budget, and states that "that budget differs from the FY 2008 cost-of-service study figures used

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[11] *See* TEX. WATER CODE § 13.043(j).

[12] *State Farm Mut. Ins. Co. v. Davis*, 576 S.W.2d 920, 921 (Tex. Civ. App.—Amarillo 1979, writ ref'd n.r.e.).

[13] PFD, p. 21.

[14] *Id.*; Tr. Vol. 11, p. 2241.

by the Executive Director in many respects calling into question the accuracy of the FY 2008 forecast." The PFD's conclusion that data that is over one year old is *per se* unreliable, is an oversimplification of the analysis for determining reliability; overlooks the testimony provided in the record related to LCRA's detailed budgeting process, including the manner in which the data is generated and assessed;[15] and is not, in fact, supported by the two pieces of evidence noted above.

While it is true that predictions may become less accurate as one goes out further in time, as noted by Ms. Loockerman, it is not true that a prediction of a cost component results in an unreasonable number simply because it was "based on data more than a year old." Certainly, Ms. Loockerman, did not believe that to be true, because in establishing rates in this proceeding, she relied on FY 2008 budgeted data. Based on her own testimony, she relied on that data because she deemed that data to be a reliable forecast of anticipated expenses. Specifically, in response to the question of why she chose to base the rates on FY 2008 data, Ms. Loockerman testified as follows:

> The appealed rates were set on August 22, 2007. The June 30, 2007 fiscal year had closed and the information contained in the forecast includes a budget for fiscal year ending June 30, 2008. This information was available to the board at the time they made their decision <u>and the information is timely enough to be reliable and reasonable at the time the rates were set</u>.[16]

If the PFD's conclusion, in part, is based on the testimony of Ms. Loockerman (as cited to in the PFD), then reliance on that testimony is misplaced because Ms. Loockerman, in no uncertain terms, deemed the FY 2008 budget data to be reliable.

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[15] Tr. Vol. 5, pp. 879:2-881:17; *see also* LCRA Ex.1, pp. 20:8-22:13; LCRA Ex. 4, pp. 7-9.

[16] Exhibit ED-1, pp. 8:22-9:4 (emphasis added).

The ALJ's reliance on Exhibit BC-75 is also misplaced. Exhibit BC-75 was produced in discovery in response to a broad request seeking budgeted information for FY 2008.[17] LCRA witness Travis was questioned about that document and he testified that he did not know who within the organization generated that document, whether that document was in draft or final form, or when the document was produced (whether generated the previous year or several years ago).[18] It is questionable to place a substantial amount of weight on that one document without knowing the answers to those questions. As such, the PFD is in error in concluding that LCRA's budgeting process (which was supported by a substantial amount of testimony at the hearing) results in unreliable figures beyond one year, based on a one page summary document introduced into the record by Appellants, and for which they failed to establish an evidentiary record supporting the significance or even the content of the document.

In spite of the fact that there is no foundation set for BC-75, a review of that document reveals that the total expenses set forth in that document were <u>higher than</u> the expenses listed in the Cost of Service Study for FY 2008.[19] The difference in total expenses between the two documents is <u>less than 2%.</u>[20] The PFD arrives at a misleading conclusion because it focuses exclusively on the differences in one cost component, and overlooks the fact that the total overall costs were basically the same (a 2% difference).[21] With the understanding that the expenses in BC-75 resulted in higher figures than those upon which the rates were based, and the fact that

[17] Tr. Vol. 4, pp. 644-645.

[18] Tr. Vol. 4, pp. 643-645; Tr. Vol. 5, pp. 865-866.

[19] *Compare* Ex. BC-75 *with* LCRA Ex. 1, SZ-7, Table 3W.

[20] BC-75 lists Total Expenses as $13,107,346, and SZ-7 lists total expenses for FY 2008 as $12,894,115 (this constitutes the total for O&M, debt, debt service coverage, and community development); *see also* Tr. Vol. 5, pp. 866-867.

[21] In the Chisholm Trail matter (TCEQ Docket No. 2004-0979-UCR), the Commission's conclusion that the utility's budgeted expenses were reliable (a 3% difference as compared to actual expenses) was based on a comparison of the overall expenses, and not on individual cost components. *See* Chisholm Trail, FOF No. 17.

there was a less than 2% variation between the figures, it is only prudent for the Executive Director to conclude that the FY 2008 budgeted data, as set forth in the Cost of Service Study, were reliable. It is similarly prudent for the Executive Director to recommend rates based on those figures.

LCRA believes that the record contains a substantial amount of evidence supporting the reliability of LCRA's budget data up to FY 2010 for the WTC Water and WTC Wastewater systems. LCRA also believes that, aside from the basic notion that "predictions become more difficult as one goes further in time," there is nothing in the record suggesting that any costs included in the budget, whether direct costs or costs associated with capital expenditures, were unreasonable due to improper assumptions during the budgeting process. Indeed, the PFD's conclusions appear to be based on the same instinctive notion and not based on any empirical evidence in the record (aside from the sole reference to BC-75) supporting the conclusion that any cost component was unreasonable because it included projections beyond one year.

LCRA opposes any findings or conclusions stating that the FY 2008 or FY 2010 budget data were unreliable, and believes that no evidence in the record suggests such a finding. LCRA also notes that the ultimate question before the Commission is whether the rates approved by the LCRA Board on August 22, 2007 are just and reasonable.[22] LCRA asks that the Commission set aside those findings to prevent the findings from establishing a precedent that a budget that projects 13 months into the future is, *per se*, unreasonable.

As the PFD notes, the use of actual FY 2007 is not without its flaws.[23] Given that ratemaking is a prospective exercise, the use of actual data from a given year without accounting

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[22] *See* TEX. WATER CODE § 13.043(j).

[23] PFD, p. 22.

for increases in costs is generally problematic and unworkable. In other words, the use of FY 2007 actual data, without accounting for any increases in costs, results in a lower revenue requirement than what a utility would otherwise seek. In this case, however, the rates approved by the LCRA Board were not set to recover the full revenue requirements.[24] Furthermore, the rates were based on very conservative budget data. As such, in this particular case, LCRA does not object to the ALJ's recommendation for the Commission to use actual FY 2007 data for WTC Water and WTC Wastewater in determining whether the rates approved by the LCRA Board on August 22, 2007 were just and reasonable.

B. VOLUME IS AN APPROPRIATE ALLOCATOR FOR WTC WATER AND WTC WASTEWATER

1. WTC Water

The PFD states that "the record contains no credible evidence that the costs that are allocated by LCRA vary in accordance with the volume of water" and concludes that volume is, therefore, not a proper allocator for allocating shared/indirect costs.[25] LCRA offered the testimony of three expert witnesses on this issue. Two expert witnesses, Messrs. Travis and Kellicker, provided expert testimony regarding the creation of the cost pools, the cost components contained therein, and the process followed by LCRA to assign allocators to such costs—a process that lasted several months.[26] Mr. Kellicker testified that the cost allocation methodology was developed by a team of LCRA employees, and included individuals from LCRA's Corporate Accounting department, Executive Management within the Water Services Business Unit ("WSBU"), the Manager of the Utility Operating Unit, individuals from LCRA's

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[24] *See* LCRA Ex. 1, p. 26:21-29.

[25] PFD, p. 29.

[26] *See generally* Tr. Vol. 5, pp. 975-999; Tr. Vol. 4. pp. 634-637; LCRA Ex. 4, pp. 15-25; LCRA Ex. 11, pp. 21-29; *see also* LCRA Ex. 4, SK-13-SK-18.

Financial Planning department, as well as financial personnel within WSBU.[27] The evidence in the record establishes that the group performed a detailed analysis of the costs and costs drivers.[28] The evidence shows that the group analyzed numerous allocators at the W/WW Utilities level, which is now being questioned by the PFD. The allocators that were analyzed at this level included direct labor, direct costs, revenues and volume, and hybrids of these allocators. Mr. Kellicker testified that as many as <u>nine or ten alternatives</u> were assessed and analyzed.[29]

On the subject of LCRA's cost allocation methodology, LCRA offered the testimony of a third expert witness, Mr. Jack Stowe. Mr. Stowe has a significant amount of expertise in reviewing and analyzing cost allocation methodologies, including the review of numerous cost allocation methodologies filed before TCEQ, the Public Utility Commission of Texas, the Texas Railroad Commission, and various other regulatory bodies.[30] Mr. Stowe was tasked with reviewing LCRA's cost allocation methodology as applied to the WTC Systems. After a review of each cost pool in which costs are allocated to the WTC Systems, the costs contained therein, and LCRA's cost allocation documents,[31] Mr. Stowe concluded that the methodology, including the use of volume in at the W/WW Operating Unit level, was reasonable.[32]

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[27] *Id.* The PFD seems to give some value to Appellants' contentions that neither Mr. Travis nor Mr. Kellicker ran a water system. *See* PFD, p. 29. If that is the case, reliance on such contention is misguided. LCRA's cost allocation methodology was inclusive, and included individuals from the Utility Operating Unit. *See* Tr. Vol. 5, p. 978:17-20. Messrs. Travis and Kellicker have particular expertise with cost allocation methodologies but their expertise is not in a vacuum—they relied on operational data to develop the LCRA cost allocation methodology, as the record clearly indicates. It would in fact be rare for LCRA to have designated a water operator as its ultimate expert on cost allocation methodologies, as the Appellants suggest, and perhaps as suggested by the PFD.

[28] Tr. Vol. 5, pp. 979-980, 996:6-16.

[29] *Id.* at 996:6-16.

[30] LCRA Ex. 7, pp. 6-18; LCRA Ex. 12, pp. 13-22.

[31] LCRA's cost allocation methodology is set out in three documents: (1) LCRA FY 2007 Cost Allocation Manual ("CAM"); (2) Water Services' Common Cost Allocations FY 2007 Business Plan; and (3) Water and Wastewater System Overhead. *See* LCRA Exs. JT-6, SK-19, SK-20. Beyond these internal documents, LCRA's cost allocation

Accordingly, there is a substantial amount of evidence indicating the basis for the creation of the cost pools, the costs included in the cost pools, the functions performed by the departments that charge in those cost pools, and LCRA's process for identifying a basis that would broadly reflect the amount of support required to operate and maintain each system. The testimony offered by LCRA's expert witnesses, indicates that "volume," or units of water produced, influences the pooled costs accumulated at the Water and Wastewater Utility (W/WW) operation unit level.[33]

Despite this testimony, the PFD contends that no credible evidence exists in the record supporting the fact that costs "vary in accordance with the volume of water." LCRA uses a number of allocators from various cost pools to ultimately allocate costs to the WTC Systems, ranging from asset costs, debt funding requirements, employee count, operating revenues, customer count, number of connections, direct labor, and volume, among many others,[34] and yet volume is the only allocator that is singled out. A review of the PFD makes clear that the issue is not one of credibility of evidence, but rather, the fact that the PFD has developed a standard for proving the reasonableness of volume, as an allocator, that is wholly different than the standard of reasonableness for the numerous other allocators that are used by LCRA (and ultimately found to be reasonable by the ALJ).

Inherent in the PFD's findings regarding this issue is that shared costs increase or decrease with direct labor costs. To what "credible evidence" in the record does the PFD cite in

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process relies on a number of other resources, including OMB Circular A-87, and is consistent with Generally Accepted Accounting Principles. *See also* LCRA Ex. 10, pp. 3:13-21, 5:22-31; LCRA Ex. 4, pp. 14:32-15:3.

[32] LCRA Ex. 7, pp. 6-18.

[33] LCRA Ex. 10, p. 9:16-23; LCRA Ex. 11, p. 9:1-12; LCRA Ex. 7, pp. 6-18.

[34] LCRA Ex. 3 at pp. 10-11, LCRA Ex. 4 at pp. 12-21, LCRA Ex. 11 at pp. 7-8; *see also* LCRA Exhibits JT-6, SK-19 and SK-20.

concluding that individual shared/support costs included in cost pools increase (or decrease) according to "direct labor"? What study was performed that supports this conclusion? None. Clearly, the standard for proving the reasonableness of volume, as an allocator, as set out in the PFD, is different than the standard for determining the reasonableness of all other allocators, including the one that is recommended, direct labor.

Furthermore, in arriving at its conclusions, the PFD references, and seems to rely upon the testimony of LCRA's senior engineer, Kelly Payne. The PFD states the following:

> During cross-examination, LCRA senior engineer Mr. Payne identified several types of costs that were included in the cost pools but would not necessarily increase according to volume, such as operations personnel, maintenance, telecommunications, security, safety and environmental activities, and technology services.[35]

The ALJ's proposed Finding of Fact No. 73 is based on this testimony, and states as follows:

> Several types of costs were included in the cost pools but would not necessarily increase according to volume, such as operations personnel, maintenance, telecommunications, security, safety and environmental activities, and technology services.

A review of the transcript reveals that Bee Cave's counsel was asking Mr. Payne whether certain costs, including the ones listed above, increase or decrease within a system during a wet or dry season. The costs discussed by Bee Cave's counsel are general descriptions, such as, maintenance, environmental, and safety. The record is absolutely clear that counsel was using general descriptions and not discussing costs and tasks that are included <u>in any specific cost pool.</u>[36] Certain costs can have a fixed component, and yet also have a variable component. Mr. Payne's testimony recognizes that certain tasks need to be performed regardless of the volume of

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[35] PFD, p. 30.

[36] *See* Tr. Vol. 3, pp. 431-435.

water produced; security, environmental, safety, maintenance are some examples. For example, Environmental and Safety could have a fixed cost (certain environmental tasks need to be performed at a system), and yet also vary in accordance with the size of the system, or the volume of water produced by the system. The same can be said for other costs, such as maintenance costs. The costs included in the cost pools are included in such pools due to the fact that they are influenced by certain cost drivers; volume is one of those drivers. The general description of "maintenance," "security," or "environmental," as used by Bee Cave's counsel, does not describe the specific job function that is included in a cost pool. Messrs. Travis, Kellicker, and Stowe provided testimony that volume of water produced influences costs that are included in these cost pools. [37]

The PFD's reliance on Mr. Payne's testimony, at the expense of overlooking the testimony of each and every witness LCRA designated as an expert on cost allocation methodologies, is misplaced. Mr. Payne, a senior engineer within LCRA, was not testifying about the basis for the costs contained in the various cost pools or the tasks performed by the various departments that charge to such cost pools. Mr. Payne was merely stating that maintenance costs, environmental costs, safety costs, will be incurred by a utility regardless of volume of water. This is not to say, however, that there is not a variable component to each of the above costs. In fact, the evidence in the record suggests that there is a variable component and that is precisely why cost pools were created by LCRA.

Additionally, Mr. Stowe's testimony is misunderstood when the PFD provides that "Although Mr. Stowe discussed other districts that use volume as an allocator, his cross-

[37] Tr. Vol. 5, p. 894:23-89:20; LCRA Ex. 10, p.9:1-23; LCRA Ex. 11, pp. 8:25-9:12; LCRA Ex. 12, p.16:3-11; LCRA Ex. 7, pp. 9-18. LCRA Ex. 4, pp. 15-21.

examination established that none of those systems use volume as an allocator of shared and indirect costs within its system as does LCRA."[38] Mr. Stowe testified that North Texas Municipal Water District, for example, develops rates for its members and non-members "based upon the highest demand year placed on the system, which is volumetric."[39] He later explains:

> ...Like LCRA, it's coming down from the governing body when we talk about G&A overhead expenses that are being allocated amongst the operating divisions or the business units, to put it comparable to LCRA, in a very similar fashion that LCRA does. Then once it gets to the business unit, it's allocated based on volumes down to the retail system.[40]

In his rebuttal testimony, Mr. Stowe testified that Trinity River Authority, like North Texas Municipal Water District, allocates costs based on volume.[41] On redirect examination, Mr. Stowe provided a detailed analysis of several regional systems, including Tarrant Regional Water District, Trinity River Authority, and North Texas Municipal Water District, and testified that they all use "volume" as an allocator in a manner that is conceptually not different that what is being done by LCRA.[42] Appellants draw distinctions between North Texas Municipal Water District, Tarrant Regional Water District, and LCRA, but those distinctions do not refute Mr. Stowe's testimony regarding the conceptual similarities of what those organizations are doing and what is being done by LCRA in terms of cost allocation. Regional water providers such as the ones named above, allocate indirect/shared costs based on volume.

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[38] PFD, p. 30.

[39] Tr. Vol. 8, p. 1507:10-13.

[40] *Id.* at p.1509:6-12.

[41] LCRA Ex. 12, p. 14:17-24.

[42] Tr. Vol. 8, pp. 1544-1549.

The evidence in the record shows that WTC Water produces 65% of the total water of all systems operated by LCRA.[43] The testimony establishes that the volume of water produced by this one system is over five times the amount of water produced by all of the systems operated by LCRA in the Hill Country region.[44] The evidence in the record also establishes that, the growth rate within the service area of WTC Water has been significant and is projected to increase,[45] whereas the growth for the Hill Country systems has been much less significant.[46] To prove that volume is a reasonable allocator, LCRA need only prove, by a preponderance of the evidence, that there is a correlation between the support cost and volume of water produced. The analysis is, therefore, whether the system that produces five times as much water as the next system, and continues to grow at a significant pace, uses more of a variable support cost that has been included in a cost pool or otherwise. LCRA proved that there is a correlation between the specified pooled costs and volume of water produced by presenting the testimony of three expert witnesses, all of whom concluded that the unit of production (volume), is a reasonable allocator when allocating certain indirect/shared costs accumulated at the Water/Wastewater Operating Unit level.

It is also important to note that LCRA admitted into the record a review performed by an outside consultant, Barrington-Wellesley Group ("BWG").[47] BWG performed an analysis of LCRA's operations and cost allocation methodology. While BWG was perhaps critical of certain aspects of LCRA, and their report was liberally used by Appellants to support their

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[43] *See* BC-83 (1.8B gallons/2.78B gallons); *see also* Tr. Vol. 6, p.1158.

[44] *See* BC-83; *see also* Tr. Vol. 1, p. 56.

[45] LCRA Ex. 1 at 15 ("The number of water meters served by the system has increased by an average of 30% per year for the four year period prior to the budget year FY 2007); *see* LCRA Ex.1, SZ-7, Table 2W.

[46] LCRA Ex. 14.

[47] *Id.*

numerous contentions, on the issue of cost allocation methodology, BWG was clear: LCRA's cost allocation methodology is "fundamentally sound and defensible."[48] In the end, three designated experts, as well as an outside consultant retained by the LCRA Board to review the cost allocation methodology (BWG), reviewed and analyzed the cost allocation methodology of LCRA as related to its utilities, and all concluded that the use of volume to allocate the designated support costs at the Water/Wastewater Operating Unit level was appropriate and reasonable. <u>Aside from Bee Cave's expert, not a single expert (including the expert designated by the Districts, Mr. Rauschuber), or any consulting firm that has been tasked with reviewing LCRA's allocation methodology, has concluded that volume is an unreasonable allocator.</u>

The PFD's conclusion that credible evidence of reasonableness did not exist in the record is a result of the fact that a standard of proof for volume, as an allocator, has been applied that is inconsistent with the manner in which one proves reasonableness, and inconsistent with the manner in which other allocators have been deemed to be reasonable.

2. <u>WTC Wastewater</u>

For the reasons detailed above, LCRA also believes that volume is the appropriate allocator for certain indirect/shared costs accumulated at the Water/Wastewater Operating Unit level. Furthermore, the PFD's recommendation to swap allocators is not supported by any testimony in the record with regards to WTC Wastewater. The testimony in the record relating to the use of "direct labor" related exclusively to WTC Water, and not WTC Wastewater. It is, therefore, inappropriate to transfer the record developed for WTC Water and apply it to WTC Wastewater as the record does not indicate that the same logic follows. As will be show below,

[48] *Id.* at IIId-1, IIId-5, IIId-6.

the conversion of allocators from volume to direct labor results in an increase of indirect/shared expenses to WTC Wastewater.

C. DIRECT LABOR IS NOT AN APPROPRIATE ALLOCATOR

As noted above, the PFD indicates that volume is not an appropriate allocator because LCRA did not show that certain costs increase according to volume.[49] The PFD suggests, however, that "direct labor" should be substituted for volume because "direct labor more closely approximates cost causation and should be used instead."[50] Based on a review of the PFD, it is unclear what evidence in the record is relied upon to conclude that "direct labor more closely approximates cost causation." Indeed, no such evidence exists. There is nothing in the record that indicates that a particular indirect/shared cost increases with an increase of direct labor (which is the standard of proof established by the PFD as related to volume). The conclusion that direct labor is a more appropriate or precise allocator is not supported by any evidence in the record.

LCRA provided ample testimony indicating that direct labor is too narrow a statistic in terms of measuring the amount of support costs needed to operate and maintain a utility. This is directly a function of the fact that many of the eligible support costs relied upon by WTC Water, are not direct charged to each individual facility, but rather, are accumulated in allocable cost pools. Mr. Kellicker provides the following testimony with regards to the use of direct labor:

> ...In LCRA's case using direct labor alone insufficiently reflects total operating costs and does not include all of the labor involved in operating and supporting the utility system. Since LCRA uses

[49] *Id.* at 30.

[50] *Id.* at 31.

> cost pools to allocate costs in conjunction with direct charged costs, using labor alone as an allocator is too narrow a statistic.[51]

As explained by Mr. Travis, "Within LCRA, direct labor generally measures the amount of time spent by plant personnel assigned to a system relative to other systems. It does not represent the total number of labor hours devoted to all aspects of operating any particular system,…."[52]

Appellants recognize that the WTC systems, being regionalized systems, are more efficient than systems within the Hill Country Region, for example.[53] If Mr. Travis' and Mr. Kellicker's testimonies are correct—that within LCRA, direct labor generally measures the amount of time spent by plant personnel assigned to a system relative to other systems—then it would appear that an efficient system, such as WTC Water (as recognized by Appellants), would charge proportionally less amount of direct time than inefficient systems. Time spent by plant personnel, however, is not tantamount to, nor represents the level of support costs needed to operate and maintain a utility.

WTC Water could be (and is) efficiently operated in terms of plant personnel costs, and yet, due to the fact that it produces five times as much water as the Hill Country Region systems, and is in a growing area spanning multiple jurisdictions, it will likely need proportionately more support costs, such as legal, engineering, land acquisition services, etc. Under the PFD's recommendation, the systems that have proportionately more labor costs (because they use proportionately more plant personnel time) will be assessed a greater portion of the support costs that are incurred by the thriving systems that use the majority of the support costs. Mr. Kellicker explained this issue in his rebuttal testimony as follows:

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[51] LCRA Ex. 11, p. 9.

[52] LCRA Ex. 10, p. 9:27-30.

[53] PFD, p. 27.

> As I have stated, using direct labor alone would only reflect the costs of plant personnel assigned to a system and does not include all of the labor involved in operating the system. This is particularly the case for LCRA given its use of pooled costs for certain operation-related support services. Thus, the use of direct labor as a factor to allocate all shared and indirect costs would skew costs towards a system that is not realizing economies of scale.[54]

Mr. Stowe also provided testimony on this issue and arrived at the same conclusion. Mr. Stowe observed that direct labor hours do not reflect a significant portion of support costs that are devoted to the various systems, and testified as follows:

> ...Although the [direct labor costs] is what LCRA has termed as direct costs for 2007, they are not inclusive of the cost of having the availability of operational personnel on an as needed basis or of the activities performed directly by WWUS common employees related to all W/WW systems. Therefore, to the extent that any of the operational activities performed at the WWUS level directly benefits the WTC Water System, these labor dollars should also be considered direct....What Ms. Heddin does not acknowledge is that there is no realistic way that WTC Water System could only have $482,395 in direct labor if there did not exist a pool of operational employees available to perform these activities....
>
> In my opinion, because of the organizational structure of LCRA, there is no definitive way to determine what should be considered direct and indirect without a full recording of all time spent by each employee of LCRA. Of course, this is cost prohibitive and would not likely be cost effective in determining an accurate amount of direct operational labor benefiting the WTC systems. Therefore, it is inappropriate to suggest the use of direct labor dollars as a means of allocating costs from WWUS based on those hours that have been directly assigned to the WTC systems by WWUS employees.[55]

Three expert witnesses with a thorough understanding of the LCRA structure, and a detailed understanding of the costs that are included as direct costs, concluded that, under the

[54] LCRA Ex. 11, p. 9 (emphasis added).

[55] LCRA Ex. 12, pp. 18:20-19:24 (emphasis added).

LCRA system of pooling costs, the use of direct labor does not reasonably reflect the amount of support services devoted to a utility system. They all arrived at this conclusion because they recognized that (1) a considerable amount of support costs are pooled (meaning they are not direct charged), and (2) the amount that is direct charged generally measures the cost associated with plant operations. Despite this testimony, and without pointing to any evidence in the record supporting the contention that a particular indirect/shared cost increases with an increase of direct labor, the PFD concludes that direct labor "more closely approximates cost causation and should be used instead."

Under the LCRA system of pooling support costs, the use of direct labor, as an allocator, in lieu of volume, is an improper measurement of the extent of support services. If the goal is to identify an allocator that can represent <u>all aspects of operating a utility system</u>, then direct labor is not the proper allocator, and the record does not support the PFD's recommendation. The Commission should find that volume is the proper allocator for costs accumulated at the Water/Wastewater Operating Unit level of LCRA.

D. THE RECORD DOES NOT SUPPORT THE EXCLUSION OF ANY COSTS FROM LCRA'S COST POOLS

1. <u>WTC Water</u>

LCRA provided a substantial amount of testimony related to the necessity and reasonableness of the costs contained in the cost pools.[56] The record reflects that the costs included within these pools are all necessary for the proper operation and maintenance of a utility system by LCRA.[57] In addition to demonstrating the necessity of these costs for the

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[56] LCRA Ex. 4, pp. 11-21; LCRA Ex. 11, p. 21-32; LCRA Ex. 7, pp. 9-24; *see also* LCRA Exs. JT-10, JT-13, SK-7, SK-8, SK-12 through SK-18.

[57] *Id.*; *see also* LCRA Ex. 3, pp. 9:22-11:1.

proper operation and maintenance of a utility system, LCRA presented evidence related to the reasonableness of such costs within the cost pool. LCRA demonstrated the reasonableness of these costs, prior to allocation, by providing testimony related to its budget process.[58] The ALJ states that he found LCRA's testimony in this regard persuasive, for the most part.[59] The PFD, however, identifies a selected group of costs within WTC Water that purportedly should be initially excluded from the cost pools and then re-allocated based on the methodology proposed by Ms. Heddin.[60] With regards to the identified costs, the PFD states as follows:

> One group of exceptions is the particular O&M adjustments, proposed by Ms. Heddin, <u>that Mr. Stowe said LCRA is not seeking to recover</u>. In Ms. Heddin's testimony, those expenses began with "Damages from Operations and Employee Injuries" and ended with "legislative advocacy." Whatever Mr. Stowe meant by his observation, he did not rebut Ms. Heddin's adjustments.[61]

The PFD does not conclude that the costs were unreasonable. Rather, the PFD appears to have concluded, <u>based on Mr. Stowe's statement</u>, that LCRA is not seeking to recover those costs, and therefore, those costs must be excluded. The source of this confusion appears to be the line of questions and answers set forth in Section VI of Mr. Stowe's rebuttal testimony.[62] The questions in that section are posed by LCRA's counsel, and track the costs that are referenced in the PFD.[63] The questions are in response to Ms. Heddin's testimony, wherein she deducts costs that were included in the FY 2007 ledger. The questions generally ask whether LCRA is seeking to recover those specific costs. Mr. Stowe correctly responds in the negative—LCRA was not seeking to recover those costs. This is because the referenced costs are the actual

[58] *Id.*

[59] PFD, p. 41.

[60] *Id.* at 41-42.

[61] *Id.* at 41, (internal citations omitted)(emphasis added).

[62] LCRA Ex. 12, pp. 32:22-34:6.

[63] They begin on page 33 of the PFD, and are included in proposed FOF No. 91.

2007 expenses and not those built into the rates—LCRA established its rates based on budgeted data, not the FY 2007 actual data. Mr. Stowe is simply pointing out that Ms. Heddin's analysis of actual FY 2007 data is irrelevant given that the rates were not based on those figures.[64]

LCRA believes that the PFD's recommendation to exclude certain costs from the cost pools, was not based on a finding that the costs were unreasonable, but rather based on a misunderstanding of Mr. Stowe's testimony. This is the case with every cost component identified in proposed Finding of Fact No. 91, with the exception of the "Legislative Advocacy" cost. It appears that the PFD found that particular cost to be unreasonable.[65] LCRA does not agree that Legislative Advocacy is an unreasonable cost and the PFD does not provide an explanation as to why this cost is inappropriate. Nevertheless, it is important to point out that of the $10,069 that is included in the Corporate Services Business Unit Cost Pool, only $38.48 is ultimately allocated to WTC Water.[66] Therefore, the amount is hardly worthy of much analysis. That said, LCRA does not believe that there is any evidence in the record, substantiating a finding that legislative advocacy is a prohibited cost component.

Under the PFD's analysis, if the FY 2007 actual data is to be used as the basis of the rates, then the above costs (with the exception of legislative advocacy perhaps) must be included as part of WTC Water's O&M costs.

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[64] The PFD, however, has recommended that the rates be viewed in light of the FY 2007 actual data, and as pointed out earlier, LCRA does not dispute this recommendation. If the FY 2007 actual data are the basis of the rates, then the above costs must be included in the analysis.

[65] *See* proposed FOF No. 92 ("With the exception of legislative advocacy,….").

[66] The calculation can be derived from a review of Ms. Heddin's exhibit BC-62. BC-62 sets out the allocation of CSBU costs to WTC Water. The allocation factors, as described in BC-62, are as follows: allocation to WSBU: 13%; allocation to WWUS: 14%; and allocation to WTC Water: 21%. The calculation, therefore, is as follows: $10,069 x 13% = $1,308.97; $1,308.97 x 14% = $183.26; and $183.26 x 21% = $38.48.

2. <u>WTC Wastewater</u>

The ALJ concludes that raw water reservation fees should be included in the WTC Water expense, but with regards to WTC Wastewater, the ALJ notes that he "could not find those fees in the actual numbers he reviewed" and concludes that to the extent those fees exist, they should be disallowed. Raw water reservation is an actual expense of WTC Wastewater and is depicted in WTC Wastewater's ledger.[67] As explained by Mr. Kellicker, the expenses are <u>offset</u> by the inclusion of raw water effluent revenues.[68] Accordingly, LCRA includes this item as an expense, and offsets this amount by including the amount as a non-rate revenue. There is no basis to exclude this actual cost, and furthermore, any associated expenses is offset by the inclusion of revenues. There is no net effect on overall revenue requirements.

E. LCRA SHOULD RECOVER ITS REASONABLE RATE CASE EXPENSES

The ALJ states that he found "in LCRA's favor on most issues"[69] but not in favor of LCRA on the use of FY 2010 budget data to establish rates, and the use of "volume" as an allocator. The ALJ concludes by stating that "Because the Proposal finds against LCRA on those issues, and because the ALJ's findings would lead to at least a significant reduction from LCRA's third-phase rates, the ALJ finds that LCRA should not receive its rate case expenses in this case."[70]

As noted throughout LCRA's testimony, and as found by the ALJ, LCRA opted to use FY 2010 data as the basis of its rates in an effort to minimize the impact of a rate increase to its customers. The ALJ noted this in his Finding of Fact No. 45: "[t]he actual FY 2007 data, if just

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[67] *See* DGR-20 (next to last page contains an entry of "Raw Water Charge" and "Raw Water Reservation Charge").
[68] LCRA Ex. 4, p. 31:1-4.
[69] PFD, p. 66.
[70] *Id.*

and reasonable for ratesettting, would result in slightly higher rates than the FY 2010 data, because the higher revenue requirement in FY 2010 was mitigated by the anticipated growth in connections." Accordingly, the ALJ's finding that FY 2010 should not be the basis of the rates, and that actual FY 2007 data should be the basis of the rates does not result in "a significant reduction from LCRA's third-phase rates." In fact, the opposite would be true—it would result in higher rates.

Furthermore, a finding that volume is not an appropriate allocator, and a recommendation to substitute direct labor in lieu of volume serves to reduce the indirect O&M cost component, but its impact, in terms of revenue requirements, is nominal. For WTC Water, that results in a 7% decrease in revenue requirements,[71] and for WTC Wastewater a 5% decrease.[72] Most importantly, such a reduction in revenue requirements <u>does not result in a reduction of rates for either WTC Water or WTC Wastewater.</u> The PFD's conclusion that a conversion of allocators "would lead to at least a significant reduction from LCRA's third-phase rates" is incorrect and is due to the fact that the calculations were not performed in the PFD. A detailed explanation of the results is provided in Section III, below, but in summary, the ALJ has found in favor of LCRA on the following cost components: direct O&M, debt service, debt service coverage, community development, and operating reserves. The ALJ also concluded that the Excess Capacity Fund, which was a credit to the cost of service and effectively reduced the revenue requirement in the amount of the credit, should not be considered as non-rate revenues.[73] The ALJ also concludes that FY 2007 actual data should be used as a starting point for establishing

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[71] *See* FN2, above.

[72] In fact, for WTC Wastewater, the conversion of the allocators results in an increase of total expenses to WTC Wastewater. The resulting decrease in revenue requirements is due to the fact that non-rate revenues for actual FY 2007 were higher than the budgeted FY 2007 data. *See* discussion in Section III, below.

[73] PFD, p. 60.

rates. When all of these factors are put together, what LCRA loses in terms of indirect O&M costs, it gains by the use of actual data (this is due to the fact that LCRA's budgeting process uses conservative figures), and the fact that the non-rate revenues for WTC Water would be lessened due to the elimination of Excess Capacity Funds as a component of non-rate revenues. Significantly, LCRA's rates were never set to recover the entirety of the revenue requirements, and therefore, the net loss in revenue requirements does not result in a reduction of rates. This is the case with both WTC Water and WTC Wastewater.[74]

LCRA does not believe that the PFD's conclusion with regards to the use of volume, as an allocator, is correct. Nevertheless, even if the shared/indirect O&M cost component is reduced (based on the substitution of allocators as recommended by the ALJ), there is no basis to deny LCRA its reasonable rate case expenses, because there would be no impact to the rates that are the subject of this proceeding.

The Commission should instruct the ALJ to issue a proposal with regards to the reasonableness of LCRA's rate case expenses, based on the testimony provide during the two-day hearing on November 9-10, 2010. LCRA seeks to recover its rate case expenses through a surcharge made applicable to each customer of the WTC Water System. The surcharge should

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[74] *See* discussion in Section III.B, below. Also, even if the entirety of the indirect/shared O&M costs is eliminated (a position that has not been advocated by the ALJ or any party in this proceeding), the PFD is supportive of almost 70% of the total expenses of WTC Water, as compared to the FY 2007 budgeted amount [expenses approved by the ALJ total $8,119,102 (*see* Table 1), and the total expenses for budgeted FY 2007 are $11,632,793 (*see* Table 8, below; *see also* LCRA Ex. 1, SZ-7, Table 3W). $8,119,102/$11,632,793= 69.8%]. As for WTC Wastewater, the PFD's substitution of direct labor for volume results in an increase in indirect/shared O&M costs to WTC Wastewater. See discussion in Section III.A.2, below. Nevertheless, for the sake of argument, even if the entirety of the indirect/shared O&M costs are eliminated (again, a position that is not advocated by the ALJ or any party in this proceeding), the PFD is supportive of almost 92% of the total expenses [expenses approved by the ALJ total $3,063,214 (see Table 9, below), and the total expenses for budgeted FY 2007 are $3,332,947 (*see* Table 12, below, *see also* LCRA Ex. 1, SZ-7, Table 3S). 3,063,214/$3,332,947=92%].

Accordingly, even if the entirety of a cost component is deleted, there would be no basis to deny LCRA its reasonable rate case expenses. Regardless, as indicated above, the PFD does not result in a decrease in rates, and therefore, the Commission should allow LCRA to recover its reasonable rate case expenses.

be arrived at by dividing the total rate case expenses by the 4,925 water connections presently existing within the WTC System, divided over a period of 24 months.[75] LCRA respectfully requests that the Commission order that this methodology be used for calculating the surcharge associated with rate case expenses.

F. TRANSCRIPT COSTS

The PFD provides that LCRA should pay for all transcript expenses because the ALJ determined that LCRA should not recover any of its rate case expenses.[76] The PFD alternatively provided that if the Commission determines that LCRA is entitled to rate case expenses that LCRA should pay half of the transcript costs and the other half should be divided equally between the Appellants. As explained in Section II.E., above, LCRA is entitled to recover its reasonable and necessary rate case expenses, and as such, the PFD's decision to charge all transcript costs against LCRA should not stand. Further, dividing the costs equally between LCRA and the Appellants is not a fair result. As previously argued, the Appellants bear a substantial amount of responsibility for why the hearing lasted as long as it did, and, consequently, why the transcript was so long and expensive. Nearly all of the factors set forth in 30 Tex. Admin. Code § 80.23(d)(1) weigh in favor of apportioning transcript costs between the parties in accordance with their participation in the hearing. Accordingly, LCRA excepts to the PFD's recommendation regarding transcript costs and respectfully requests that transcript costs be apportioned between the parties based on the number of pages each party's examination covered.[77]

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[75] Tr, pp. 2519:11-17.

[76] PFD, p. 63.

[77] By this reasoning, the costs should be apportioned as follows: LCRA $2,949.72, Bee Cave $6,010.47, and Districts $4,560.06.

G. LCRA SHOULD COLLECT LOST REVENUES AS A RESULT OF IMPLEMENTATION OF INTERIM RATES

The rate increase approved by the LCRA Board on August 22, 2007, was to be implemented in three steps—the first to be implemented on October 1, 2007, the second on October 1, 2008, and the third on October 1, 2009. Pursuant to Order No. 9, the ALJ established interim rates that froze the rates at the second step of the rate increase.[78] The evidence presented by LCRA establishes that the rates adopted by the LCRA Board on August 22, 2007 for the WTC Regional Systems are just and reasonable. The establishment of interim rates has resulted in lost revenues to LCRA. Ms. Flores testified that the lost revenues should be calculated from the date upon which the third step would have gone into effect, October 1, 2009.[79] Ms. Flores further testified that the lost revenues should be collected through a surcharge from active customers of the WTC Regional Systems, and provided further testimony on the duration, and amount of the surcharge.[80] Ms. Flores' testimony on the calculation of the surcharge and its application is consistent with how the Commission has calculated and imposed surcharges in rate proceedings. Imposition of a surcharge in the manner recommended by Ms. Flores is necessary in order to allow LCRA to collect its lost revenues.

The Commission should include, in its order, a provision authorizing the LCRA Board to determine the amount of lost revenues, and to impose a surcharge to collect the actual loss of revenues from all active customers of the WTC Systems; to be calculated as follows: the amount of lost revenues for each system (WTC Water and WTC Wastewater) divided by the number of

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[78] The rates currently in place are those that became effective on October 1, 2008.
[79] LCRA Ex. 9, p. 3:30-34.
[80] *Id.* at 4: 1-10.

active retail connections at the time of the Commission Order, to be collected over a period of 24 months.

III.
CALCULATION OF INDIRECT O&M COSTS IN ACCORANCE WITH METHODOLOGY ESTABLISHED IN ALJ'S PFD

A. THE ALJ'S METHODOLOGY FOR CALCULATING REVENUE REQUIREMENTS HAS A NEGLIGIBLE IMPACT ON THE OVERALL REVENUE REQUIREMENTS FOR BOTH WTC WATER AND WTC WASTEWATER WHEN COMPARED TO LCRA'S BUDGETED DATA

1. WTC Water

The ALJ found that, with the exception of $18,536, LCRA's direct costs were reasonable. The actual costs for direct O&M in FY 2007 were $1,954,429, and therefore $1,935,893 was found to be reasonable.[81] The ALJ found that LCRA's debt service of $4,549,074 for WTC Water was reasonable.[82] The ALJ found that LCRA's debt service coverage figures were reasonable.[83] The actual debt service coverage for WTC Water in FY 2007 was $1,137,269. The ALJ found that the Community Development expenses are reasonable costs for WTC Water.[84] The Community Development cost for FY 2007 was $298,333. The ALJ found that LCRA's operating reserves in the amount of $179,997 were reasonable.[85] The only issue relates to the indirect/shared O&M costs, for which the ALJ recommended a modification of the allocation methodology for the cost pools for which volume is used as an allocator—the ALJ recommended the substitution of "direct labor" for "volume" as an allocator, and also recommended the exclusion of certain costs from the cost pools and the re-allocation of these

[81] *See* SK-4; *see also* DGR-12.

[82] *See* PFD, p. 47; *see also* SK-4 for actual Debt Service cost for FY 2007.

[83] *See* PFD, pp. 55-56; *see also* proposed FOF No. 116.

[84] *See* PFD, p. 58; *see also* proposed FOF 118-123.

[85] *See* PFD, p. 48.

costs based on the methodology set out by Ms. Heddin. Table 1 summarizes the costs that have been found to be reasonable by the ALJ, and the amount of costs (indirect/shared O&M costs) that will need to be modified in accordance with the ALJ's methodology.

Table 1 – Representation of Actual Expenses for FY 2007 (WTC Water)

	Actual FY 2007	Recommended by ALJ to be included in Revenue Requirement?
Direct costs	$1,954,429	Yes, except an amount totaling $18,536
Indirect/shared costs	$3,946,888	Not entirely
Debt service	$4,549,074	Yes
Debt service coverage	$1,137,269	Yes
Community Development	$298,333	Yes
Operating Reserve	$179,997	Yes
Total Costs	**$12,065,990**	

Accordingly, of the total of $12,065,990 of actual expenses for FY 2007, the PFD finds that LCRA has proven, by a preponderance of the evidence, that $8,100,566 is reasonable, and asks the parties to determine the amount of indirect/shared costs that must to be added to $8,100,566, based on the methodology proposed by the PFD.

Before proceeding with the calculations, as requested by the PFD, it is significant to note that LCRA's budgeted expenses were $11,138,415[86] (compared to actual expenses of $12,065,990). Given the fact that LCRA based its rates on budgeted data, and not actual data, the impact of any deductions must be compared to budgeted data, and not actual data.

a. Amount Contained in Cost Pools, Prior to Allocation to WTC Water

Prior to substituting direct labor for volume, one must first determine the total amount contained in a given cost pool. That number can be calculated from the various documents introduced into the record. Specifically, by determining the amount allocated from each cost

[86] *See* LCRA Exhibits 4, SK-4 and 1, SZ-7.

pool to WTC Water, and also determining the allocation percentage of the cost pool, then we can determine the total amount contained in the cost pool, prior to allocation. For example, if we know that $100 is allocated from Cost Pool A to Utility, and we know that 50% of Cost Pool A is allocated to Utility, then we can determine that the total contained in Cost Pool A prior to allocation is $200 ($100/0.5=$200). In this example, Cost Pool A contains $200, fifty percent (50%) of which is allocated to Utility, meaning that Utility is allocated $100. We can perform the same exercise by reviewing LCRA Ex. 4, SK-4., which represents the allocated amount, and BC-77, which represents the budgeted allocation percentages to WTC Water.

Table 2 summarizes the allocated numbers from LCRA Ex. 4, SK-4.

Table 2—Amount From Each Cost Pool Allocated to WTC Water (From LCRA Ex. 4, SK-4.)

Cost Pool	Allocated Amount
Allocated Operating Center	$162,123
Allocated Regional	$146,148
Allocated Customer Service	$362,951
Allocated W/WW Common	$1,460,736
Allocated WSBU Internal Overhead	$1,122,659
Allocated New Business Development	$184,206
Allocated Corporate	$508,065

As noted above, BC-77 depicts the budgeted percentage from each cost pool allocated to WTC Water. The allocation percentage depicted in BC-77 is summarized in Table 3, below.

Table 3-Percentage Allocated to WTC Water (Based on BC-77)

Cost Pool	Percentage Allocated to WTC Water Based on Volume
Operating Center	Not Volume Based
Regional Cost Pool	82.1%
Customer Service	Not Volume Based
Common Cost Pool	56.6%
WSBU Internal Overhead	56.6%
New Business Development	55.9%
Corporate	56.6%

Based on Table 2, which represents the amount allocated to WTC Water, and Table 3, which represents the percentage of the allocator, we can determine the total amount contained within the cost pool (prior to allocation to WTC Water). That number is depicted in Table 4.

Table 4—Total Contained in Cost Pools Allocated by Volume

Cost Pool	Total Amount Contained in Cost Pool
Regional Cost Pool	$145,148/82.1% = $178,012
Common Cost Pool	$1,460,736/56.6% = $2,580,806
WSBU Internal Overhead	$1,122,659/56.6% = $1,983,496
New Business Development	$184,206/55.9% = $329,528
Corporate	$508,065/56.6% = $897,641

b. Allocation based on Direct Labor

BC-83 (also introduced as BC-8) contains the necessary information for the calculation of the allocator percentage based on direct labor. A review of that document reveals that WTC Water has a direct labor cost of $467,271. The total labor cost amount for all LCRA utility systems, as depicted in BC-83, is $2,357,256.[87] Accordingly, the direct labor percentage is 20.67% ($467,271/$2,357,256). The allocator percentage of 20.67% must then be substituted for the volume based allocators depicted in Table 3 for all cost pools, except the Regional Cost Pool.[88] The direct labor percentage for the Regional Cost Pool is 66.2%, as depicted in BC-83.[89] Table 5 represents the revised allocator percentage.

[87] That is the amount reflected under the column "Labor-2." This column represents the direct labor of both WTC Water and WTC Wastewater, and also provides a sum total of all direct labor costs for all LCRA systems. By dividing the direct labor charges of WTC Water and WTC wastewater by the sum total in Labor-2, the direct labor percentage for WTC Water and WTC Wastewater can be determined. As is evident form the exhibit, the use of the sum total in the column identified as "Labor-1" is not appropriate because that column includes labor costs charged to two cost pools: the WTC Regional and WTC Operating Center Cost Pools. Accordingly, the sum total under that column includes labor costs charged directly to systems as well as labor charged to the regional and operating center cost pools. The Labor-2 column depicts the total labor allocated to systems exclusively, which is the relevant statistic to perform the task requested by the ALJ.

[88] Regional costs are costs that are only attributable to the specific region in which the system is located. Therefore, direct labor percentage is a comparison of the costs associated with the system to all systems within the region.

[89] 66.2% represents the labor cost of WTC Water in relation to the labor cost for the WTC Regional Systems, or $487,271/$736,004=66.2%.

Table 5- Depiction of Revised Allocation Percentage Based on PFD's Recommendation (WTC Water)

Cost Pool	Allocations Based on PFD Recommendation	Allocation Based on Volume (from Table 4- for comparison purposes)
Operating Center	Not Volume Based	Not Volume Based
Regional Cost Pool	66.2%	82.1%
Common Cost Pool	20.67%	56.6%
Customer Service	Not Volume Based	Not Volume Based
WSBU Internal Overhead	20.67%	56.6%
New Business Development	20.67%	55.9%
Corporate	20.67%	56.6%

Under the PFD, the largest system owned and operated by LCRA, the system that produces roughly 65% of the total volume of water produced by all systems of LCRA,[90] and the one that is in a service area that has seen a significant amount of growth and projected to see similar future growth, is allocated only one-fifth of the total cost of LCRA's support services. That is an outcome that is unreasonable and one that is not supported by the evidence in the record. An allocator based on direct labor in no way reflects the amount of support services needed to operate LCRA's largest and fastest growing system. Nevertheless, in order to comply with the PFD's recommendation, the revised percentage must be applied to the amount contained in the cost pools. Table 6 provides the total amount that can be allocated to WTC Water, in accordance with the PFD's recommendations.

[90] *See* BC-83 (1.8B gallons/2.78B gallons); *see also* Tr. Vol. 6, p.1158.

Table 6-Shared/Indirect Costs Allocated to WTC Water Pursuant to PFD's Recommendation

Cost Pool	Total Amount Contained in Cost Pool
Operating Center	$162,123 [not volume based]
Regional	$117,843 [$178,012 x 66.2%]
Customer Service	$362,951 [not volume based]
Common Cost Pool	$533,453 [$2,580,806 x 20.67%]
WSBU Internal Overhead	$409,989 [$1,983,496 x 20.67%]
New Business Development	$68,113 [$329,528 x 20.67%]
Corporate	$185,542 [897,641 x 20.67%]
Total	**$1,840,014**

Accordingly, the total indirect/shared costs in accordance with the PFD's methodology of substituting direct labor for volume amounts to **$1,840,014.**

The PFD also recommends the exclusion of certain costs. LCRA believes that the basis of the ALJ's recommendation to exclude costs appears to be a misunderstanding of Mr. Stowe's testimony wherein he testified that LCRA was not seeking to recover such costs. As explained in Section II.D., above, Mr. Stowe was testifying that because LCRA based its rates on budgeted data, it was not seeking to recover the actual costs that were being highlighted by Appellants. Given that the ALJ is recommending that the rates be established based on actual FY 2007 data, there is no basis to exclude these costs. Significantly, LCRA submits that the exclusion of these costs and the re-allocation back to WTC Water does not result in a decrease in allocation to WTC Water, but rather a <u>minor increase</u> to WTC Water. <u>Attachment "1"</u> sets forth the details of the calculation based on the exclusions. The initial exclusion of costs and the re-allocation of these costs back to WTC Water in the manner provided for by Ms. Heddin results in an indirect/shared cost of $1,842,811, which is approximately $2,800 more than the amount allocated without exclusions.[91] The discussion below uses the lower indirect/shared O&M cost of $1,840,014.

c. Revenue Requirements for WTC Water Based on PFD

To recap, the PFD deemed the following costs for FY 2007 to be reasonable: all but $18,356 of direct O&M costs, debt service, debt service coverage, operating reserves and community development. The ALJ also recommended that the parties determine the indirect/shared costs based on the methodology set forth in the PFD. The indirect/shared costs to be allocated to WTC water total $1,840,014. Accordingly, the total expenses for WTC Water, under the PFD's methodology, is $10,465,672. Table 7 sets forth the total expenses in accordance with the PFD, and compares that result to actual FY 2007 data, as well as budgeted FY 2007 figures contained in the cost of service study.

Table 7—Total Expenses for WTC Water

Cost Component	**Expenses Based on PFD**	**Actual FY 2007 Expenses**	**FY 2007 Budget (SZ-7)**
Direct O&M	$1,935,893	$1,954,429	$1,453,960
Indirect/Shared Costs	$1,840,014	$3,946,888	$3,575,023
Debt Service	$4,549,074	$4,549,074	$4,602,758
Debt Service Coverage	$1,137,269	$1,137,269	$1,150,692
Community Development	$298,333	$298,333	$298,333
Operating Reserves	$179,997	$57,650	$57,650
Raw Water	$525,092[92]	$525,092	$494,378[93]
Total	**$10,465,672**	**$12,591,082**[94]	**$11,632,793**

[91] **Attachment "1"** contains a summary sheet that compares the calculations with and without the exclusions. Tables A-F of Attachment "1" set out the exclusions from each cost pool, and also set forth the distribution factor. This calculation has been performed in accordance with Ms. Heddin's testimony. All references to Ms. Heddin's testimony and exhibits are included in the tables.

[92] *See* DGR-12 for actual Raw Water costs.

[93] *See* LCRA Ex. SZ-7, Table 14W.

[94] This is the number depicted in the WTC Water ledger for FY 2007. *See* DGR-12.

To determine the revenue requirements, the non-rate revenues must be deducted from the above expenses. The PFD recommended that LUE Reservation Fees, Effluent Revenues, and Miscellaneous Revenues be included as non-rate revenues. The ALJ correctly concluded that Excess Capacity Funds, a component that LCRA had been including as a non-rate revenue in an effort to assist customers, and not out of any legal obligations, need not be included as a non-rate revenue. Non-rate revenues for actual FY 2007 are depicted in WTC-46, and are as follows: \$458,000 for Reservation Fees, and \$768,000 in Miscellaneous fees, for a total of \$1,226,000. The total revenue requirements are depicted in Table 8.

Table 8—Revenue Requirements

Cost Component	**Based on PFD**	**Actual FY 2007 Expenses**	**FY 2007 Budget (SZ-7)**
Direct O&M	\$1,935,893	\$1,954,429	\$1,453,960
Indirect/Shared Costs	\$1,842,810	\$3,946,888	\$3,575,023
Debt Service	\$4,549,074	\$4,549,074	\$4,602,758
Debt Service Coverage	\$1,137,269	\$1,137,269	\$1,150,692
Community Development	\$298,333	\$298,333	\$298,333
Operating Reserves	\$179,997	\$57,650	\$57,650
Raw Water	\$525,092[95]	\$525,092	\$494,378[96]
Total	**\$10,465,672**	**\$12,591,082**[97]	**\$11,632,793**
Non-Rate Revenues	**(\$1,226,000)**	**(\$1,226,000)**	**(\$1,658,645)**[98]
Revenue Requirements	**\$9,239,672**	**\$11,365,082**	**\$9,974,148**

As illustrated above, the revenue requirements based on the PFD's recommended methodology amounts to approximately \$730,000 less than that budgeted by LCRA, or roughly 7% less. To be sure, even the 7% variance is too high given that the above exercise related to

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[95] *See* DGR-12 for actual Raw Water costs.

[96] *See* LCRA Ex. SZ-7, Table 14W; *see also* Tr. Vol. p. 1687:13-16.

[97] This is the number depicted in the WTC Water ledger for FY 2007. *See* DGR-12.

[98] *See* LCRA Ex. SZ-7, Table 3W.

modifying indirect/shared costs was performed on all indirect/shared costs of WTC Water, including those that related to wholesale customers. The rates of wholesale customers, however, are not being appealed, and therefore, from a legal standpoint that portion that is devoted to wholesale customers does not have to be modified in accordance with the PFD.[99]

2. <u>WTC Wastewater</u>

The ALJ found that LCRA's direct costs were reasonable. The actual costs for direct O&M for FY 2007 were $609,681.[100] The ALJ found that LCRA's debt service of $1,857,034 for WTC Wastewater was reasonable.[101] The ALJ found that LCRA's debt service coverage figures were reasonable.[102] The actual debt service coverage for WTC Wastewater in FY 2007 was $464,259. The ALJ found that the Community Development expenses are reasonable costs for WTC Wastewater.[103] The Community Development cost for FY 2007 was $84,901. The ALJ found that LCRA's operating reserves in the amount of $47,340 were reasonable.[104] The only issue relates to the indirect/shared O&M costs, for which the ALJ recommended a modification of the allocation methodology for the cost pools for which volume is used as an allocator—the ALJ recommended the substitution of "direct labor" for "volume" as an allocator.

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[99] Approximately 20% of the costs are allocated to wholesale customers. *See* LCRA Ex. 1, SZ-7, Table 9W, p. 89. LCRA performed the allocator conversion (from volume to direct labor) for all indirect/shared costs, including those that are allocated to wholesale customers, even though the costs allocated to those customers are not the subject of this appeal.

[100] *See* SK-4; *see also* DGR-20.

[101] *See* PFD, p. 47; *see also* SK-4 for actual Debt Service cost for FY 2007.

[102] *See* PFD, pp. 55-56; *see also* proposed FOF No. 116.

[103] *See* PFD, p. 58; *see also* proposed FOF Nos. 118-123.

[104] See PFD at 48.

Table 9—Representation of Actual Expenses for FY 2007 (WTC Wastewater)

	Actual FY 2007	Recommended by ALJ to be included in Revenue Requirement?
Direct costs	$609,681	Yes
Indirect/shared costs	$437,779	Not entirely
Debt service	$1,857,034	Yes
Debt service coverage	$464,259	Yes
Community Development	$84,901	Yes
Operating Reserve	$47,430	Yes
Total Costs	**$3,500,993**	

Accordingly, of the total of $3,500,993 of actual expenses for FY 2007, the PFD finds that LCRA proved, by a preponderance of the evidence, that $3,063,214 is reasonable, and asks the parties to determine the amount of indirect/shared costs that need to be added to $3,063,214, based on the substitution of direct labor as an allocator for volume.

As stated above with regards to WTC Water, it is important to highlight LCRA's budgeted figures, given that the rates in this proceeding were based on budget data. The budget data for FY 2007 included total expenses of $3,332,947.[105] As such, even if one discounts the entirety of the indirect/shared costs, the ALJ has found that some 92% of LCRA's total expenses, as compared to budget data, are reasonable ($3,063,214/$3,332,947). Of course, this assumes that no indirect/shared costs get allocated to WTC Wastewater, which is not the PFD's recommendation. In fact, as will be shown below, the PFD's recommendation of substituting direct labor for volume results in a greater amount of indirect/shared costs being allocated to WTC Wastewater than that budgeted for the system during FY 2007.

In order to substitute direct labor for volume, we must start with the total amount contained in the cost pool. The total amount contained in the cost pools was depicted, above, in Table 4, and is recreated here.

[105] *See* LCRA Ex. SZ-7, Table 3S; *see also* LCRA Ex. 4, SK-4.

Total Contained in Cost Pools

Cost Pool	Total Amount Contained in Cost Pool
Regional Cost Pool	$178,012
Common Cost Pool	$2,580,806
WSBU Internal Overhead	$1,983,496
New Business Development	$329,528
Corporate	$897,641

At this point, we must determine the allocator percentage based on the substitution of direct labor for volume. Exhibit BC-83 (also introduced as BC-8) contains the necessary information to perform this calculation. A review of that document reveals that WTC Wastewater has direct labor cost of $146,605. The total labor costs amount for all LCRA utility systems, as depicted in BC-83, is $2,357,256. Accordingly, the direct labor percentage is 6.2% ($146,605/$2,357,256). The allocator percentage of 6.2% must then be substituted for the volume based allocators,[106] except for the Regional Cost Pool, as the allocator for that cost pool is 19.92%, as depicted in BC-83.[107] Non-volume based allocators are obviously not impacted. Table 10 represents the revised allocator based on total labor for the cost pools that previously used volume as an allocator.

Table 10—Depiction of Revised Allocation Percentage Based on PFD's Recommendation (WTC Wastewater)

Cost Pool	Allocations Based on PFD Recommendation
Operating Center Cost Pool	Not Volume Based
Regional Cost Pool	19.92%
Customer Service	Not Volume Based
Common Cost Pool	6.2%
WSBU Internal Overhead	6.2%
New Business Development	6.2%
Corporate	6.2%

[106] The volume based allocator applicable to WTC Wastewater is 4.2%. *See* BC-77.

[107] Regional costs are costs that are only attributable to the specific region in which the system is located. Therefore, direct labor percentage is a comparison of the costs associated with the system to all systems within the region.

In order to determine the amount that must be allocated to WTC Wastewater, the revised percentage must then be applied to the total amount contained in the cost pool. Table 11 provides the total amount that can be allocated to WTC Wastewater in accordance with the ALJ's recommendation.

Table 11—Shared/Indirect Costs Allocated to WTC Wastewater Pursuant to PFD's Recommendation

Cost Pool	Total Amount Contained in Cost Pool
Operating Center	$55,255 [not volume based]
Regional Cost Pool	$35,460 [$178,012 x 19.92%]
Customer Service	$124,547 [not volume based]
Common Cost Pool	$160,010 [$2,580,806 x 6.2%]
WSBU Internal Overhead	$122,977 [$1,983,496 x 6.2%]
New Business Development	$20,431 [$329,528 x 6.2%]
Corporate	$55,654 [$897,641 x 6.2%]
Total	**$574,334**

Under the PFD, the indirect/shared costs of WTC Wastewater would be more than the actual amount that is contained in LCRA's accounting system, and also greater than the amount included in the budget for WTC Wastewater for FY 2007. Table 12 provides a comparison of total expenses between the PFD's recommendation, the actual amount contained in the ledger for WTC Wastewater, as well as the amount contained in the Cost of Service Study.

Table 12—Total Expenses for WTC Wastewater

Cost Component	Expenses Based on PFD	Actual FY 2007 Expenses	FY 2007 Budget (SZ-7)
Direct O&M	$609,681	$609,681	$506,589
Indirect/Shared Costs	$574,334	$437,779	$436,364
Debt Service	$1,857,034	$1,857,034	$1,844,074
Debt Service Coverage	$464,259	$464,259	$461,020
Community Development	$84,901	$84,901	$84,901
Operating Reserves	$47,430	$47,430	$0
Total	**$3,637,639**	**$3,500,993**	**$3,332,947**

To determine the revenue requirements, the non-rate revenues must be deducted from the above expenses. The non-rate revenues for WTC Water for FY 2007 are depicted in Exhibit

WTC-48 and are in the amount of $872,000. This total represents raw water effluent revenue as well as miscellaneous revenue. Total revenue requirements for WTC Wastewater are depicted in Table 13

Table 13—Revenue Requirements (WTC Wastewater)

Cost Component	**Expenses Based on PFD**	**Actual FY 2007 Expenses**	**FY 2007 Budget (SZ-7)**
Direct O&M	$609,681	$609,681	$506,589
Indirect/Shared Costs	$574,334	$437,779	$436,364
Debt Service	$1,857,034	$1,857,034	$1,844,074
Debt Service Coverage	$464,259	$464,259	$461,020
Community Development	$84,901	$84,901	$84,901
Operating Reserves	$47,430	$47,430	$0
Total	$3,637,639	$3,500,993	$3,332,947
Non-Rate Revenues	($872,000)	($872,000)	($418,000)
Revenue Requirement	**$2,765,639**	**$2,628,993**	**$2,914,947**

As illustrated above, the revenue requirements based on the PFD's recommended methodology amount to less than $150,000 less than that budgeted by LCRA, or roughly 5% less than the budgeted amount. Most importantly, under the PFD's methodology, the costs to be allocated to WTC Wastewater increase, rather than decrease. Indeed, the only reason that the ultimate revenue requirements are lower under the PFD's methodology is unrelated to the manner in which indirect costs are allocated, but rather due to the fact that the non-rate revenues for FY 2007 were higher than the amount projected by LCRA. Furthermore, those revenues were higher than projected only due to the fact that LCRA collected revenues in that year based on a contractual matter that is non-recurring. Thus, the minor revenue requirement decrease is only due to the inclusion of a non-normalized revenue.

B. THE REVENUE REQUIREMENTS ESTABLISHED UNDER THE ALJ'S METHODOLOGY DO NOT IMPACT THE RATES FOR EITHER WTC WATER OR WTC WASTEWATER—LCRA'S RATES ARE JUST AND REASONABLE

In this section, LCRA has set out to determine the amount of revenues that are generated based on the 3rd step of the rate increase for residential customers. That number is then compared to the revenue requirements for that class of customers based on the revised revenue requirement. LCRA's method of calculations follows the methodology described by Ms. Graham in her prefiled testimony, as well as her testimony at the evidentiary hearing.[108] Attachment "2" contains the detailed calculations for WTC Water, and Attachment "3" contains the detailed calculations for WTC Wastewater. A brief discussion about the calculations is provided in this section.

1. WTC Water

As depicted in the Cost of Service Study, the residential revenue requirement for FY 2007 was $6,541,975.[109] This constitutes approximately 65.59% of the total revenue requirements.[110] Using the same customer allocation percentage, the revenue requirement for residential customers of WTC Water under the PFD would amount to $6,060,237.[111] In order to calculate revenues based on the third step, Ms. Graham determined the annual base rate revenues and added that total to annual revenue based on usage. Ms. Graham's projections were based on the documents contained in attachments 4 and 5 to her prefiled testimony. Following Ms. Graham's methodology, the annual revenue from usage amounts to $3,472,604, and the annual

[108] LCRA has used Ms. Graham's method because of the PFD's reliance on Ms. Graham's testimony with regards to rate design matters. *See* PFD, p. 61.

[109] *See* LCRA Ex. 1, SZ-7, Table 16W ($4,634,170 + $1,907,805).

[110] $6,541,975/$9,974,148=65.58931%

[111] 65.58931% x $9,239,672 = $6,060,237

revenue for base rate revenue amounts to $1,721,382, for a total of $5,193,986.[112] The details of this calculation are provided in Attachment "2." Accordingly, under this methodology of calculating the reasonableness of rates, the residential revenue requirement is $6,060,237, and yet a total of $5,193,986 is projected to be recovered under the third step of LCRA's rate increase. Accordingly, the third step of the rate increase is reasonable, given that it recovers less than the required amount.

2. <u>WTC Wastewater</u>

Using the same methodology, the residential revenue requirement under the PFD's recommendation amounts to $1,770,008. Attachments 6 and 7 to Ms. Graham's prefiled testimony are then used to calculate annual revenue from usage, as well as base rate revenues. Total projected revenues amount to $1,699,089, which is less than the required amount of $1,770,008. Accordingly, the third step of the rate increase is reasonable, given that it recovers less than the required amount. The details of the calculations are provided in Attachment "3."

IV.
CONCLUSION

The ALJ found all of LCRA's cost components, with the exception of $18,356 of direct costs and certain indirect/shared O&M to be reasonable. With regards to indirect/shared O&M costs, the PFD states that the record does not contain credible evidence with regard to volume as an allocator, and recommends that direct labor be substituted for volume in order to determine the amount of indirect/shared O&M cost that can be included in the calculation of revenue requirements for both WTC Water and WTC Wastewater. LCRA's cost allocation methodology was developed after months of analysis of costs and cost drivers. The evidence in the record

[112] The testimony in the record on this issue is not very clear, but the figure that is provided is even less, constituting $4,974,806. See Tr. Vol. 9, p.1684:9-10. This is the number that seems to indicate the amount of revenues generated by the third step of the rate increase.

chronicles the events, and with regard to volume, in particular, the record indicates that at the time of the analysis some nine or ten alternatives were reviewed, and yet volume was chosen. Volume was chosen because LCRA believed, based on its studies, that it reasonably reflected the amount of support costs used by a utility from certain cost pools. LCRA offered the testimony of three expert witnesses on the issue of cost allocation methodology, and specifically, the use of volume as an allocator. All three concluded that that "volume," or units of water produced, influences the pooled costs accumulated at the Water and Wastewater Utility Operation Unit level of LCRA. Evidence in the record suggests that an outside consultant reviewed this methodology, and it too concluded that LCRA's cost allocation methodology is reasonable. LCRA believes that the PFD's statement regarding the lack of credible evidence stems from the fact that the PFD develops a standard for proving the reasonableness of volume, as an allocator, that is entirely different than the standard of reasonableness for the numerous other allocators that are used by LCRA (and ultimately found to be reasonable by the ALJ).

The PFD recommends that direct labor should be substituted for volume because it more closely approximates cost causation, and yet, there is no evidence in the record suggesting that indirect/shared costs increase or decrease based on direct labor hours under the LCRA system of pooling costs. No citations substantiating this finding are provided in the PFD. The evidence in the record establishes that under the LCRA system of pooling costs, the use of direct labor does not reasonably reflect the amount of support services devoted to a utility system. This is because a great portion of the support costs are not direct charged to a utility system, but rather are pooled and then allocated. If the goal is to identify an allocator that can represent all aspects of operating a utility system (including those necessary costs that are pooled within cost pools), then direct labor is not the proper allocator, and the record does not support the PFD's recommendation.

Nevertheless, in compliance with the ALJ's recommendation, LCRA has performed the necessary calculations to determine the amount that would be deducted from indirect/shared O&M costs based on the shift from volume to direct labor. Based on this modification of allocators, indirect/shared O&M costs decrease by approximately $1.7M for WTC Water (this amount represents a comparison of the revised calculation to the budgeted FY 2007 amount). The PFD's recommendation do not, however, result in the deduction of indirect O&M costs exclusively. Indeed, the PFD's recommendations result in some increases of costs. Furthermore, the PFD eliminates the Excess Capacity Fund credit that LCRA utilizes in its efforts to aid the customers. The elimination of the Excess Capacity Fund, which LCRA calculates as a non-rate revenue, results in lower non-rate revenues, and therefore, higher overall revenue requirements. When all of the facets of the PFD are considered, the revenue requirements for WTC Water decrease by approximately 7%. Significantly, deductions in revenue requirements for WTC Water does not impact the rates because LCRA's rates were set below its revenue requirements. LCRA has demonstrated this fact by performing a calculation of revenues generated under the third step of the rate increase for residential customers of WTC Water, and compared those results to the revenue requirements for residential customers based on the revised revenue requirement in accordance with the PFD. LCRA performed this calculation in accordance with the testimony offered by the Executive Director on this issue. The calculation reveals that the generated revenues under the third step of the rate increase are below the revenue requirements under the methodology established by the PFD. The

Commission should find that rates approved by the LCRA Board on August 22, 2007 for WTC Water are just and reasonable.

With regards to WTC Wastewater, there is no evidence in the record supporting a recommendation to substitute direct labor for volume, as all the testimony in the record on this issue relates to WTC Water. The evidence further does not indicate that the same logic that applies to WTC Water, applies to WTC Wastewater. Indeed, it does not, and the PFD's recommendations result in an increase, not decrease, of indirect/shared O&M expenses. The Commission should similarly find that the rates approved by the LCRA Board on August 22, 2007 for WTC Wastewater are just and reasonable.

Furthermore, the PFD did not allow LCRA to recover its reasonable rate case expenses because it erroneously concludes that a shift of allocators would result in a significant decrease in rates. That is, however, not the case. Under the worst case, that being the exclusion of the entirety of the indirect/shared O&M costs (a position that has not been advocated by the ALJ or any party in this proceeding), the PFD is supportive of almost 70% of the total expenses of WTC Water, as compared to the FY 2007 budgeted amount, and almost 92% of the total expenses of WTC Wastewater, as compared to the FY 2007 budged amount. Accordingly, even if the entirety of a cost component is deleted, there would be no basis to deny LCRA its reasonable rate case expenses. Regardless, as indicated above, the PFD does not result in a decrease in rates, and therefore, the Commission should allow LCRA to recover its reasonable rate case expenses.

Finally, the Commission should include, in its order, a provision authorizing the LCRA Board to determine the amount of lost revenues, and to impose a surcharge to collect the actual loss of revenues from all active customers of the WTC Systems; to be calculated as follows: the amount of lost revenues for each system (WTC Water and WTC Wastewater) divided by the number of active retail connections at the time of the Commission Order, to be collected over a period of 24 months.

Respectfully submitted,

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CERTIFICATE OF SERVICE

This is to certify that a true and correct copy of the foregoing document has been forwarded to the following as indicated below on the 28th day of February, 2011:

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ATTACHMENT “1”

Calculation of Revised Revenue Requirement
WTC Water

Calculation without Exclusions

	Existing Allocation Methodology		Re-Allocation						Heddin Allocation	
Actual Cost Pool Amounts allocated to WTC Water (SK-4)	Amount	Allocation % (BC-77)	Total Cost Pool Amount	Exclusions from Cost Pools	Revised Cost Pool Amount	Existing Allocation not based on Volume (No Change)	Direct Labor Allocation % (BC-8)	Cost Pool Allocation	Amount Allocated to WTC Water	Total
Allocated Regional	$146,148	82.10%	$178,012	$0	$178,012		66.20%	$117,844	$0	$117,844
Allocated Operating Center	$162,123	58.10%	$279,041	$0	$279,041	58.10%		$162,123	$0	$162,123
Allocated Water & Wastewater Common	$1,460,736	56.60%	$2,580,806	$0	$2,580,806		20.67%	$533,453	$0	$533,453
Allocated Water Services Overhead	$1,122,659	56.60%	$1,983,496	$0	$1,983,496		20.67%	$409,989	$0	$409,989
Allocated Water Services New Business Development	$184,206	55.90%	$329,528	$0	$329,528		20.67%	$68,113	$0	$68,113
Allocated Customer Service	$362,951	37.97%	$955,889	$0	$955,889	37.97%		$362,951	$0	$362,951
Allocated Net Residual Corporate	$508,065	56.60%	$897,641	$0	$897,641		20.67%	$185,542	$0	$185,542
Total	$3,946,888.00		$7,204,414	$0	$7,204,414			$1,840,015	$0	$1,840,015

Calculation with Exclusions

	Existing Allocation Methodology		Re-Allocation						Heddin Allocation	
Actual Cost Pool Amounts allocated to WTC Water (SK-4)	Amount	Allocation % (BC-77)	Total Cost Pool Amount	Exclusions from Cost Pools[1]	Revised Cost Pool Amount	Existing Allocation not based on Volume (No Change)	Direct Labor Allocation % (BC-8)	Cost Pool Allocation	Amount Allocated to WTC Water[1]	Total
Allocated Regional	$146,148	82.10%	$178,012	($1,406)	$176,606		66.20%	$116,913	$928	$117,841
Allocated Operating Center	$162,123	58.10%	$279,041	$0	$279,041	58.10%		$162,123	$0	$162,123
Allocated Water & Wastewater Common	$1,460,736	56.60%	$2,580,806	($265,804)	$2,315,001		20.67%	$478,511	$55,819	$534,330
Allocated Water Services Overhead	$1,122,659	56.60%	$1,983,496	($247,137)	$1,736,359		20.67%	$358,905	$51,899	$410,804
Allocated Water Services New Business Development	$184,206	55.90%	$329,528	($1,307)	$328,221		20.67%	$67,843	$0	$67,843
Allocated Customer Service	$362,951	37.97%	$955,889	($137,262)	$818,627	37.97%		$310,832	$53,532	$364,365
Allocated Net Residual Corporate	$508,065	56.60%	$897,641	($183)	$897,458		20.67%	$185,505	$0	$185,505
Total	$3,946,888.00		$7,204,414	($653,100)	$6,551,314			$1,680,633	$162,178	$1,842,811

[1]For exclusions and re-allocation calculations see the following tables:

- Table A - Customer Service Cost Pool
- Table B - Regional Cost Pool
- Table C - W/WW Common Cost Pool
- Table D - Water Services Overhead Cost Pool
- Table E - New Business Development Cost Pool
- Table F - Net Residual Corporate Cost Pool

Total Exclusions By Exhibit

	Account	Product Desc	Amount	
Exhibit BC-24				
WTC Water	Salaries	Perform Rate & Financial Analysis	19,726.00	
WTC Region	Salaries	Perform Rate & Financial Analysis	1,378.00	
WSOH	Salaries	Perform Rate & Financial Analysis	92,021.00	
New Bus Dev	Salaries	Perform Rate & Financial Analysis	1,307.00	
			114,432.00	
BC-25				
WTC Water	Outside Services	Perform Rate & Financial Analysis	18,535.56	
WTC Region	Employee Business Expense	Perform Rate & Financial Analysis	27.90	
WSOH	Office Supplies	Perform Rate & Financial Analysis	10.89	
WSOH	Employee Training Expenses	Perform Rate & Financial Analysis	97.00	
WSOH	Employee Business Expense	Perform Rate & Financial Analysis	57.85	
WSOH	Internal Service Charged	Perform Rate & Financial Analysis	219.09	
			18,948.29	
BC-26				
WWW Common	Legal Service Fees	Various	7,679.50	
WWW Common	Legal Service Expenses	Various	182.20	
WSOH	Legal Service Fees	Legal Services	9,740.59	
WSOH	Legal Service Expenses	Legal Services	2,314.98	
WSOH	Outside Services	Legal Services	9.63	
WSOH	Employee Business Expenses	Legal Services	4.26	
WSOH	Postage & Freight	Legal Services	30.63	
			19,961.79	2,314.21
BC-27				
WWW Common	Damages from Operations	Various	51,957.68	
WSOH	Damages from Operations	Various	9,867.39	
WSOH	Employee Injury & Damages	Provide Management Oversight	1,000.00	
			62,825.07	
BC-28				
WWW Common	Empl Incentive Awrd Compenstn	Various	135,105.11	
WWUS Retail	Empl Srv Awrds Non- Compenstn	Various	3,032.18	
WSOH	Empl Incentive Awrd Compenstn	Various	130,486.35	
WSOH	Deferred Compensation	Provide Executive Oversight	18,000.00	
			286,623.64	
BC-29				
WWW Common	Hardware Lease/Lic/Maint	Various	13,654.77	
WWUS Retail	Outside Services	Various	115,074.00	
WWUS Retail	Hardware Lease/Lic/Maint	Dell Ultrasharp 1907FP	767.28	
WSOH	Hardware Lease/Lic/Maint	Various	57,247.61	
WSOH	Misc Lease Related Pymts	Maintain Technology	8,500.00	
			195,243.66	
BC-30				
WSOH	Community Economic Dev/Assist	Provide Executive Oversight	22,500.00	
BC-31				
WWW Common	Outside Services	Practicing Perfection Training	34,550.00	
BC-32				
WWW Common	Property Acquisition/Easement	Real Estate Sale Notice	253.80	
WTC Water	Outside Services	Procurement Services	2,400.00	
			2,653.80	
BC-33				
WSOH	Office Supplies	Develop Business & Strategic	20.52	

WSOH	Contract Labor	Develop Business & Strategic	9,335.63
WSOH	Employee Training Expenses	Develop Business & Strategic	1,087.05
WSOH	Employee Business Expenses	Develop Business & Strategic	1,648.54
WSOH	Membership Dues	Develop Business & Strategic	455.00
WSOH	Internal Service Charged	Develop Business & Strategic	156.21
			12,702.95
BC-34			
WSOH	Other Interest Expense	Provide Executive Oversight	10,896.22
BC-35			
WWW Common	Materials & Supplies	Various	2,343.72
WWW Common	Outside Services	Various	20,077.43
WWUS Retail	Outside Services	Various	18,388.88
			40,810.03
BC-35b			
WTC Water	Other Interest Expense	Develop Water/WW Business	16,459.98
BC-51			
WSOH	Various	Develop Business & Strategic	357,900.00
WSOH	Legal Services	Salaries	15,294.00
CSBU	Legislative Advocacy		10,069.00
		Total	1,221,870.43

Table A
Water Services Customer Service Cost Pool Exclusions

Exclusions

Product Description	Account Description	Amount
Various (Heddin Exh BC-28)	Empl Srv Awards Non-Compensatn	$3,032.18
Various (Heddin Exh BC-29)	Outside Services	$115,074.00
Dell Ultrasharp (Heddin Exh BC-29)	Hardware Lease/Lic/Maint	$767.28
Various (Heddin Exh BC-35)	Outside Services	$18,388.88
Total		$137,262.34
Distribution Base 2 - Retail Customer Count (Heddin Exh BC-61)		39%
Amount re-allocated to WTC Water		$53,532.31

Table B
West Travis County Regional Cost Pool Exclusions

Exclusions

Product Description	Account Description	Amount
Perform Rates & Financial Analysis (Heddin BC-24)	Salaries	$1,378.00
Perform Rates & Financial Analysis (Heddin BC-25)	Employee Business Expense	$27.90
Total		$1,405.90
Distribution Base 1 - Regional Labor (Heddin Exh BC-61)		66.00%
Amount re-allocated to WTC Water		$927.89

Table C
W/WW Common Cost Pool Exclusions

Exclusions

Product Description	Account Description	Amount
Various (Heddin Exh BC-26)	Legal Service Fees	$7,679.50
Various (Heddin Exh BC-26)	Legal Service Expenses	$182.20
Various (Heddin Exh BC-27)	Damages from Operations	$51,957.68
Employee Incentive Awrd Compensatn (Heddin Exh BC-28)	Empl Incentive Awrd Compensatn	$135,105.11
Various (Heddin Exh BC-29)	Hardware Lease/Lic/Maint	$13,654.77
Practicing Perfection Training (Heddin Exh BC-31)	Outside Services	$34,550.00
Real Estate Sale Notices (Heddin Exh BC-32)	Property Acquisition/Easements	$253.80
Various (Heddin Exh BC-35)	Materials & Supplies	$2,343.72
Various (Heddin Exh BC-35)	Outside Services	$20,077.43
Total		$265,804.21
Distribution Base 3 - Total WWUS Labor (Heddin BC-61)		21%
Amount re-allocated to WTC Water		$55,818.88

Table D
Water Services Internal Overhead Cost Pool Exclusions

Exclusions

Product Description	Account Description	Amount
Perform Rates & Financial Analysis (Heddin Exh BC-24)	Salaries	$92,021.00
Perform Rates & Financial Analysis (Heddin Exh BC-25)	Office Supplies	$10.89
Perform Rates & Financial Analysis (Heddin Exh BC-25)	Employee Training Expenses	$97.00
Perform Rates & Financial Analysis (Heddin Exh BC-25)	Employee Business Expenses	$57.85
Perform Rates & Financial Analysis (Heddin Exh BC-25)	Internal Service Charged	$219.09
Legal Services (Heddin Exh BC-51)	Salaries	$15,294.00
Legal Services (Heddin Exh BC-26)	Legal Service Fees	$9,740.59
Legal Services (Heddin Exh BC-26)	Legal Service Expenses	$2,314.98
Legal Services (Heddin Exh BC-26)	Outside Services	$9.63
Legal Services (Heddin Exh BC-26)	Employee Business Expenses	$4.26
Legal Services (Heddin Exh BC-26)	Postage & Freight	$30.63
Various (Heddin Exh BC-27)	Damages from Operations	$9,867.39
Provide Management Oversight (Heddin Exh BC-27)	Employee Injury & Damages	$1,000.00
Various (Heddin Exh BC-28)	Empl Incentive Awrd Compensatn	$130,486.35
Provide Executive Oversight (Heddin Exh BC-28)	Deferred Compensation	$18,000.00
Various (Heddin Exh BC-29)	Hardware/Lic/Maint	$57,247.61
Maintain Technology (Heddin Exh BC-29)	Misc Lease Related Pymts	$8,500.00
Provide Executive Oversight (Heddin Exh BC-30)	Community Economic Dev/Assist	$22,500.00
Develop Business & Strategic Planning (Heddin Exh BC-51)	Salaries	$357,900.00
Develop Business & Strategic Planning (Heddin Exh BC-33)	Office Supplies	$20.52
Develop Business & Strategic Planning (Heddin Exh BC-33)	Contract Labor	$9,335.63
Develop Business & Strategic Planning (Heddin Exh BC-33)	Employee Training Expenses	$1,087.05
Develop Business & Strategic Planning (Heddin Exh BC-33)	Employee Business Expenses	$1,648.54
Develop Business & Strategic Planning (Heddin Exh BC-33)	Membership Dues	$455.00
Develop Business & Strategic Planning (Heddin Exh BC-33)	Internal Service Charged	$156.21
Provide Executive Oversight (Heddin Exh BC-34)	Other Interest Expense	$10,896.22
Total		$748,900.44
Percentage allocated to WWUS		33%
Amount allocated to WWUS		$247,137.15
Distribution Base 3 - Total WWUS Labor		21%
Amount re-allocated to WTC Water		$51,898.80

Table E
New Business Development Cost Pool Exclusions

Exclusions

Product Description	Account Description	Amount
Perform Rates & Financial Analysis (Heddin Exh BC-24)	Salaries	$1,307.00
Excluded as Not Prudent or Necessary		0%
Amount re-allocated to WTC Water		$0.00

Table F
Corporate Cost Pool Exclusions

Exclusions

Product Description	Account Description	Amount
Legislative Advocacy (No Exhibit)	Unknown	$10,069.00
Percentage Allocated to WSBU		13%
Amount Allocated to WSBU		$1,308.97
Percentage Allocated to WWUS		14%
Amount Allocated to WWUS		$183.26
Percentage Allocated to WTC Water System		0%
Amount allocated to WTC Water		$0.00

ATTACHMENT "2"

Calculation of Projected FY 2007 Annual Residential Revenues based on ED Methodology
WTC Water

	Cost of Service FY 07 Budget	Revised FY 07 PFD
Residential Revenue Requirement (Table 16W & Revised Calc)	$6,541,975	$6,060,238
Annual Usage (Table 1W - Attachment 5 - Graham Testimony)	640,349,918	640,349,918
Number of Meters (Table 2W - Attachment 4 - Graham Testimony)	3,900	3,900
Average Monthly Usage per Meter (Usage/Meters/12)	13,683	13,683
Monthly Volume-related Charge based on Average Monthly Usage (1)	$74.20	$74.20
Projected Annual Revenue		
Annual Revenue from Usage (Meters x Monthly Charge x 12)	$3,472,604	$3,472,604
Annual Base Rate Revenue (2)	$1,721,382	$1,721,382
Total Projected Annual Revenue	$5,193,986	$5,193,986
Excess/(Deficit)	($1,347,989)	($866,252)

(1) Calculation of Monthly Volume-related Charge

Volume Charges by Block				
0 - 10,000			$5.10	$5.10
10,001 - 20,000			$6.30	$6.30
20,001 - 25,000			$8.60	$8.60
25,001 - 50,000			$10.30	$10.30
50,001 and above			$13.00	$13.00
		1,000 gallons		
Average Monthly Usager per Meter			13,683	13,683
	10,000	10.000	$51.00	$51.00
	3,683	3.683	$23.20	$23.20
Monthly Volume-Related Charge based on Average Monthly Usage			$74.20	$74.20

(2) Base Rate Calculation

By Meter Size	FY 06 Actual Table 2W (Attachment 4 - Graham Testimony)	FY 07 Distribution of Meters based on FY 06 Actuals	
5/8"	2992	3,598	
3/4"	237	285	
1"	12	14	
1 1/2"	1	1	
2"	1	1	
	3243	3,900	FY 07 Projection (Table 2W)

By Rate District

Bee Cave	Attachment 3 - Graham Testimony	Distribution of Meters based on FY 06 Actuals
5/8"	1394	1,675
3/4"	175	210
1"	12	14
1 1/2"	1	1
2"		-
Total	1582	1,901

By Rate District

	Attachment 3 - Graham Testimony	Distribution of Meters based on FY 06 Actuals
Bee Cave		
Bee Cave South		
5/8"	1152	1,384
3/4"	26	31
1"		-
1 1/2"		-
2"		-
Total	1,178	1,416
290/HPR		
5/8"	333	400
3/4"	21	25
1"		-
1 1/2"		-
2"	1	1
Total	355	427
Homestead		
5/8"	115	138
3/4"	15	18
1"		-
1 1/2"		-
2"		-
Total	130	156
Total Meters	3,245	3,900
Base Rates - 3rd Step		
Bee Cave/Bee Cave South		
5/8"		$31.65
3/4"		$47.50
1"		$79.15
1 1/2"		$158.25
2"		$253.20
Annual Revenue from Base Rates (Bee Cave/Bee Cave South)		
5/8"		$1,162,093
3/4"		$137,781
1"		$13,707
1 1/2"		$2,284
2"		$0
		$1,315,864
290/HPR/Homestead		
5/8"		$57.50
3/4"		$57.50
1"		$86.25
1 1/2"		$143.75
2"		$287.50
Annual Revenue from Base Rates (290/HPR/Homestead)		
5/8"		$371,496
3/4"		$29,872
1"		$0
1 1/2"		$0
2"		$4,149
		$405,518
Total Annual Revenue from Base Rate		**$1,721,382**

ATTACHMENT “3”

Calculation of Projected FY 2007 Annual Residential Revenues based on ED Methodology
WTC Wastewater

	Cost of Service FY 07 Budget	Revised FY 07 PFD
Residential Revenue Requirement (Table 14S & Revised Calc)	$1,862,379	$1,770,008
Annual Usage (Table 1S - Attachment 7 - Graham Testimony)	133,679,393	133,679,393
Number of LUEs (Table 2S - Attachment 6 - Graham Testimony)	1,443	1,443
3rd Step Rates		
Monthly Base Rate per LUE	$52.00	$52.00
Monthly Volume Charge	$5.75	$5.75
Projected Annual Revenue		
Annual Revenue from Usage (Volume Charge x Annual Usage/1000)	$768,657	$768,657
Annual Base Rate Revenue (Base Rate x LUEs x 12)	$900,432	$900,432
Total Projected Annual Revenue	$1,669,089	$1,669,089
Excess/(Deficit)	($193,290)	($100,920)